The Jack of All Trades
in China in the 21st Century

Discussion for

Serial Entrepreneurship in China

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Types of Entrepreneurs

- Novice entrepreneurs:
  - who launch a business for the first time

- Habitual entrepreneurs
  - Serial entrepreneurs:
    - who launch business *sequentially*
  - Portfolio entrepreneurs:
    - who run multiple businesses *concurrently*

The Jack of All Trades

Serial entrepreneur: Wang Xing

Portfolio entrepreneur: Lei Jun

- An old saying: A Jack of all trades is master of none.

- But could China in the 21st century be the cradle for a Jack of all trades?

- Under what conditions could a Jack of all trades also be master of all?

Contribution of This Paper

- Document important facts on habitual entrepreneurship in China
- Develop simple yet effective model to theorize serial entrepreneurship
- Present empirical evidences to motivate portfolio entrepreneurship
- Investigate how local business environment affects entrepreneurship

Facts on Habitual Entrepreneurship in China

- 1) 1st serial entrepreneur has higher TFP and more capital than novice
- 2) 2nd serial entrepreneur has lower TFP and more capital than 1st
- 3) 2nd serial entrepreneur has higher TFP and more capital than novice
- 4) Increasing fraction of habitual entrepreneurship over time

- 5) Serial entrepreneurship has significantly/slightly higher entry/exit rate than novice entrepreneurship
- 6) There are more habitual entrepreneurship in know-how or human capital intensive industries
- 7) Habitual entrepreneurship are more likely to locate in same prefecture and different sector

Theorizing Serial Entrepreneurship

- Two periods where a firm lasts for only one period
- Two state variables:
  - TFP: positive serial correlation across two periods
  - Net worth: start with 0 and accumulated from 1st to 2nd period
- Ex-ante identical potential entrepreneurs who
  - Are risk-neutral
  - May borrow or save
  - Consumer after 2nd period
  - Pay fixed operating cost for each entry
  - Pay output and capital taxes
- Model generates implications consistent with facts 1-4

Motivating Portfolio Entrepreneurship

- Probability of having another firm in industry j is higher if j is
    - downstream integrated with i
    - upstream integrated with i
    - output complementary with i
    - input complementary with i
    - negatively correlated with i in ROA

The Effects of Local Business Environment

- Findings from exploring regional heterogeneities in terms of
  - entry barriers
  - output and capital distortions
  - political connections
- 1) Prefectures with higher entry barriers and higher distortions are associated with less entrepreneurship
- 2) Prefectures with higher entry barriers and higher distortions are associated with less habitual entrepreneurship
- 3) The fraction of habitual entrepreneurship that are CCP members is higher in prefectures with higher entry barriers and higher distortions

Comments: Definition

- Literature:
  - distinguishes serial from portfolio entrepreneurship
- This paper:
  - Uses serial entrepreneurship to refer both
  - "Individual who is or has been the entrepreneur of more than one firm"
- Questions:
  - Would the mechanism behind serial and portfolio be different?
  - Would the underlying policy implications be different?

Comments: Data

- Literature:
  - Data on portfolio entrepreneurs are scarcer, but they seem to account for between 10 and 20% of entrepreneurs (Astebro and Bernhardt, 2005)
- This paper:
  - "85% of SE establish their second firm concurrently with the first firm"
- Questions:
  - If concurrently, how to define first and second firm?
  - 85% seems really high in contrast to 10-20%, why?
  - If 85%, the majority is portfolio entrepreneurship, then model, implications?

Comments: Model – Nature vs Nurture

- Literature -- Nature:
  - Extensive literature on occupational choice between novice entrepreneurship and paid employment
  - A few recent model on occupational choice between serial entrepreneurship and novice entrepreneurship
  - Emphasize on entrepreneur ability and willingness to take risk

- This paper -- Nurture:
  - Ex-ante identical potential entrepreneurs
  - Differences driven by TFP, entry barriers and distortions

- Questions:
  - Could there be an interesting interaction between nature and nurture?

Comments: Motivation – Synergy and Risk

- Nice empirical evidences on the determents of 2nd firm:
    - Downstream and upstream integration -- synergy
    - Input and output complementarity -- synergy
    - Risk diversification -- risk
- Questions:
    - Why not model the motivation of portfolio entrepreneurship formally?
    - Why not model the synergy: $E(r_{ij}) > E(r_i) + E(r_j)$?
    - Is risk diversification really a valid motivation under complete market?
    - Maybe it explains the low significance on the risk term in your regression?

Comments: Business Environment

- Nice empirical evidences on environment and selection:
  - 1) Prefectures with higher entry barriers and higher distortions are associated with less entrepreneurship
  - 2) Prefectures with higher entry barriers and higher distortions are associated with less habitual entrepreneurship
- Questions:
  - Theory Part: could there be a formal model to analyze the effects of barriers and distortions on entrepreneurship and habitual entrepreneurship and therefore aggregate TFP? I see a lot of inspirations from Melitz (2003).
  - Empirical Part: the measured business environment is rarely exogenous. Is there any event/shock to explore to make the correlation causal?

Conclusion

- A very thought-provoking paper
- A very pertinent and important research topic
- A very clean and powerful model
- Two comprehensive and unique dataset
- Five "serial scholars" on Chinese economy
- Many interesting findings
- Great potential to further explore for many top Fives